

Message Text

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44

ACTION AF-06

INFO OCT-01 EUR-12 NEA-09 ISO-00 CIAE-00 DODE-00 PM-03

H-02 INR-07 L-02 NSAE-00 NSC-05 PA-01 PRS-01 SP-02

SS-15 USIA-06 AID-05 COME-00 EB-07 FRB-03 TRSE-00

XMB-02 OPIC-03 CIEP-01 LAB-04 SIL-01 OMB-01 INT-05

/104 W

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R 171100Z APR 75

FM AMEMBASSY NOUAKCHOTT

TO SECSTATE WASHDC 3646

INFO AMEMBASSY ALGIERS

AMEMBASSY BONN

AMEMBASSY DAKAR

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY RABAT

C O N F I D E N T I A L SECTION 1 OF 2 NOUAKCHOTT 0730

E.O. 11652: GDS

TAGS: EFIN EINV EMIN MR

SUBJECT: MIFERMA NEGOTIATIONS UNDERWAY

REF: NOUAKCHOTT A-65 DATED 12-2-74

SUMMARY: TEAM REPRESENTING STOCKHOLDERS OF SOCIETE DES MINES DE FER DE MAURITANIE (MIFERMA) HELD FOURTH IN SERIES OF NEGOTIATING SESSIONS WITH GIRM LAST WEEK. MAJOR ISSUE IS QUESTION OF COMPENSATION FOR MIFERMA WHICH WAS NATIONALIZED IN NOVEMBER 1974. STOCKHOLDERS ARE PARTICULARLY ANXIOUS TO AVOID ARBITRARY SOLUTION IMPOSED BY GIRM. ON ONE HAND, SENIOR GIRM OFFICIALS APPRECIATE NEED TO MAINTAIN GOOD REPUTATION WITH INTERNATIONAL FINANCIAL COMMUNITY AND, ON OTHER, TO PROVE TO CERTAIN ACTIVIST ELEMENTS IN COUNTRY THAT MAURITANIAN POLICIES ARE IN ACCORD WITH
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THOSE OF THIRD WORLD. DESPITE DESIRE OF MIFERMA TEAM

TO PUSH FOR SIGNATURE OF FINAL AGREEMENT BY MID-MAY,
WE DOUBT THAT SOLUTION WILL BE REACHED UNTIL AFTER CONCLUSION
OF PARTY CONGRES IN JULY. ON APPROPRIATE OCCASION, WE
WILL REMIND GIRM OF USG LEGISLATION DEALING WITH NATIONALIZATION
SINCE AMERICAN COMPANY HOLDS 3 PERCENT INTEREST IN MIFERMA.
END SUMMARY.

1. TEAM REPRESENTING FIVE FORMER STOCKHOLDERS OF MIFERMA
(WHICH WAS NATIONALIZED NOVEMBER 28, 1974) HELD FOURTH IN
SERIES OF TAGUS WITH GIRM APRIL 9-12. VISITING TEAM HAD
AUTHORITY TO NEGOTIATE ON BEHALF OF ALL STOCKHOLDERS.
IMMEDIATELY PRIOR TO FINAL MEETING WITH GIRM, ZFYR MEMBERS
OF GROUP--TEAM LEADER GERALD VAN LOO OF BRITISH STEEL CROP;
VICE CHAIRMAN OF PENARROYA, J.Y. EICHENBERGER; ASSISTANT
DIRECTOR GENERAL OF COMPAGNIE FIANCIERE POUR L'OUTREMER,
LOUIS LACAILE; AND ASSISTANT TO DIRECTOR GENERAL OF MIFERMA,
PAUL OUZILLO--MET WITH AMBASSADOR AND EMBOFFS. SPOKESMAN
VAN LOO NOTED THAT KEY MAURITANIANS IN DISCUSSIONS WERE
MINISTER OF PLAN AND INDUSTRIAL DEVELOPMENT, SIDI OULD
CHEIKH ABDALLAHI, AND DIRECTOR GENERAL OF SOCIETE NATIONALE
INDUSTRIELLE ET MINIERE (SNIM), ISMAIL OULD AMAR, WHO
TOOK PART AS AYDISTANT TO MINISTER RATHER THAN IN HIS
CAPACITY AS HEAD OF SNIM. FOLLOWING MIFERMA NATIONALIZATION,
SNIM, GOVERNMENT'S INDUSTRIAL HOLDING COMPANY, TOOK
CHARGE OF IRON MINES.

2. MIFERMA GROUP SAID MAJOR GOAL OF DISCUSSIONS WAS TO
OBTAIN "JUST AND EQUITABLE" COMPENSATION. GIRM DID NOT
PROPOSE SPECIFIC FIGURE BUT STATED DURING INFORMAL MEETING
THAT IT HAS CEILING FROM WHICH IT WILL TRY TO NEGOTIATE
DOWNWARD. MIFERMA GROUP REFERRED TO THIS FIGURE AS
"FLOATING THRESHOLD" WHICH IT BELIEVES IS BASED ON NET
BOOK VALUE OF MIFERMA ASSETS. GIRM IS TRYING TO REDUCE
COMPENSATION FIGURE BY CITING "DEDUCTIONS" SUCH AS COST
TO GIRM FOR FAILURE OF MIFERMA TO TRANSFER ITS HEADQUARTERS
FROM PARIS TO ZOUIRAT. (NO ONE INCLUDING GIRM NEGOTIATORS
SEEMS TO KNOW HOW TO CALCURNTE SUCH A DEDUCTION).
DURING DISCUSSIONS LAST WEEK, GIRM ADDED NEW TWIST BY
PRESENTING SHAREHOLDERS' REPS WITH \$6 MILLION CLAIM FOR
WITHHOLDING TAX. MIFERMA RESPONDED ORIGINAL CONVENTION
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D'ESTABLISSEMENT EXEMPTED IT FROMS SUCH TAXES, AND IN
DISCUSSION WITH US TERMED CLAIM "RIDCULOUS."

3. MIFERMA REPS DID NOT INDICATE THEIR TARGET COMPENSATION
FIGURE. VAN LOO DID SAY, HOWEVER, THAT DURING COURSE
FOURTH SESSION STOCKHOLDERS REDUCED THEIR REQUEST BY \$50
MILLION. HE EMPHASIZED THAT GROUP HAD THUS CROSSED
"IMPORTANT PSYCHOLOGICAL BARRIER." IN RESPONSE TO QUESTION,

VAN LOO SAID STOCKHOLDERS WILL NOT PRESS CLAIM FOR PROVED IRON ORE RESERVES DISCOVERED BY MIFERMA (NOUAKCHOTT 2027 OF 12-27-74). MIFERMA STOCKHOLDERS OFFERED DRAFT CONTRACT FOR FORMALIZING COMPENSATION. IT RAN INTO LEGAL DIFFICULTIES, HOWEVER, OVER QUESTION WHETHER CONTRACT WOULD BE WITH GIRM OR SNIM. MAURITANIAN MINISTER CAUSED REAL CONCERN WHEN HE COMMENTED AT ONE POINT THAT "THERE ARE NO PRINCIPLES AS FAR AS AGREEMENTS WITH GOVERNMENTS ARE CONCERNED." MIFERMA WANTS CONTRACT WITH BOTH SNIM AND GIMX, INCLUDING COMPLETE RELEASE FROM ALL PRESENT AND FUTURE LEGAL ACTIONS.

4. MIFERMA ADMITS THAT IT IFKWI DIRECTLY" INVOLVED WITH PROBLEMS CONFRONTING BANQUE INTERNATIONALE POUR LA MAURITANIE (BIMA). (LATEST INFORMATION ON BIMA WAS REPORTED IN NOUAKCHOTT 322 AND 422.) MINISTER SIDI TOLD GROUP, HOWEVER, THAT MIFERMA IS "DIRECTLY" INVOLVED IN ALLEGED FOREIGN EXCHJFGE INFRACTIONS. HERETOFORE GIRM HAS LEVELED THIS CHARGE ONLY AGAINST BIMA. THIS IS REFERENCE TO APPROXIMATELY \$20 MILLION IN SALES PROCEEDS ISKIYULATED OVERSEAS BY .IFERMA IMMEDIATELY PRIOR TO AND FOLLOWING NATIONALIZATION. GIRM ARGUES THAT BIMA SHOULD HAVE COLLECTED THIS MONEY. SITUATION IS COMPOUNDED BECAUSE, UNDER MAURITANIAN LAW, GIRM CAN LEVY FINE OF FIVE TIMES AMOUNT OXJGCP GAINST EITHER BIMA OR MIFERMA OR PERHAPS EVEN BOTH. THERE IS SOME CONCERN AMONG STOCKHOLDERS THAT GIRM INTENDS TO LEVY \$100 MILLION FINE AGAINST MIFERMA WHICH WILL COINCIDENTALLY EQUAL AMOUNT OF COMPENSAM TV VFDOED TO STOCKHOLDERS. MINISTER SIDI PREVIOUSLY DENIED THAT GIRM INTENDS TO FNLLOW THIS PATH (NOUAKCHOTT A-19). IN ANY EVENT, MIFERMA HAS NOT YET BEEN OFFICPRLLY CHARGEB WITH ANY WRONG-DOING CONCERNING FOREIGN EXCHANGE
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ACTION AF-06

INFO OCT-01 EUR-12 NEA-09 ISO-00 CIAE-00 DODE-00 PM-03

H-02 INR-07 L-02 NSAE-00 NSC-05 PA-01 PRS-01 SP-02

SS-15 USIA-06 AID-05 COME-00 EB-07 FRB-03 TRSE-00

XMB-02 OPIC-03 CIEP-01 LAB-04 SIL-01 OMB-01 INT-05

/104 W

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R 171100Z APR 75

FM AMEMBASSY NOUAKCHOTT

TO SECSTATE WASHDC 3647

INFO AMEMBASSY ALGIERS

AMEMBASSY BONN

AMEMBASSY DAKAR

AMEMBASSY LONDON

RUFNPY AOSMBASSY PARIS 584

AMEMBASSY RABAT

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5. MIFERMA STOCKHOLDERS REPORT OUTCOME OF THESE NEGOTIATIONS IS BEING WATCHED CLOSELY IN BOTH THIRD WORLD AND IN INDUSTRIALIZED COUNTRIES BY BUSINESS, BANKING, AND INVESTING COMMUNITIES. STOCKHOLDER REPS BELIEVE GIRM AS WHOLE MAY NOT YET REALIZE HOW MUCH IS INRDACT RIDING ON OUTCOME THESE NEGOTIATIONS, UQVUGH VAN LOO SAID HE IS SURE THAT PRESIDENT OULD DADDAH AND MINISTER SIDI APPRECIATE INTERNATIONAL IMPLICATIONS OF NEGOTIATIONS. NEITHER PERSON WISHES TO SEE MAURITANIA WRITTEN OFF AS IRRESPONSIBLE. AT SAME TIME, VAN LOO IS AWARE OF POLITICAL CROSS CURRENTS, WHICH PREFER TOUGH POLICY AGAINST MIFERMA. INDEED HE AGREED THAT SERIES "FINANCIAL HARRASSMENTS" SUCH AS WITHHOLDING TAX CLAIM ARE IN ALL PROBABILITY DIRECT REFLECTION THESE INTERNAL GIRM CONFLICTS. HE NOTED PAMPHLETS ARE BEING CIRCULATED IN PARIS BY MAURITANIAN STUDENTS URGING THAT NO COMPENSATION BE PAID TO STOCKHOLDERS..VAN
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LOO SAID SIMILAR ARGUMENTS ARE BEING MADE IN SOME QUARTERS IN MAURITANIA.

6. VAN LOO CATEGORIZED TALKS UP TO PRESENT TIME AS BEING COURTEOUS BUT NOT ESPECIALLY CONSTRUCTIVE. HE SAID ONE SITUATION WHICH STOCKHOLDERS ARE MOST ANXIOUS TO AVOID IS

IMPOSITION OF "ARBITRARY AND UNFAIR" COMPENSATION. MIFERMA REALIZES THAT GIRM HAS THIS OPTION, BUT BELIEVES SUCH ACTION WOULD HAVE DAMAGING IMPACT ON MAURITANIA'S REPUTATION IN FINANCIAL AND COMMERCIAL CIRCLES WORLDWIDE AND ON COUNTRY'S FUTURE ECONOMIC PROSPECTS. STOCKHOLDERS ARE TROUBLED BY VARIOUS RELATED FINANCIAL CLAIMS BUT BELIEVE THESE CAN BE OVERCOME. TEAM LEADER IS HOPEFUL THAT THEY WILL BE ABLE TO REACH FINAL AGREEMENT AND SIGN FORMAL SETTLEMENT BY MID-MAY, BUT THEIR MEMBERS NEGOTIATING TEAM BELIEVE IT IS MORE REALISTIC TO EXPECT GIRM DECISION AFTER PARTY CONGRESS JULY 1.

7. MINES ARE CONTINUING TO OPERATE NORMALLY. ALL KEY PERSONNEL HAVE REMAINED ON JOB. GIRM IS ANXIOUS THAT PRESENT MANAGEMENT STAY IN PLACE SO THAT IRON ORE WILL KEEP MOVING. QUESTION OF NEW MANAGEMENT CONTRACT REMAINS UNSOLVED, PRESUMABLY UNTIL COMPENSATION IS SETTLED.

8. ACCORDING TO VAN LOO, WORLD BANK, WHICH PROVIDED ASSISTANCE FOR DEVELOPING MINES, IS MONITORING COMPENSATION QUESTION CLOSELY. IBRD IS URGING EQUITABLE SETTLEMENT AND PRESIDENT MCNAMARA REPORTEDLY INFORMED MINISTER SIDI OF THIS FACT WHEN TWO MET IN WASHINGTON IN JANUARY. MIFEPTR IS KEEPING IBRD OFFICE IN PARIS INFORMED OF DEVELOPMENTS.

9. STOCKHOLDERS THOUGHT IT WOULD BE USEFUL IF, AT SOME APPROPRIATE TIME, EMBASSY WOULD REMIND GIRM OF INTERNATIONAL ECONOMIC IMPLICATIONS OF AN IMPOSED AND INADEQUATE COMPENSATION AGREEMENT. WHEN EMBOFF RECALLED US LAW REQUIRES TERMINATION OF GRANT ASSISTANCE FOR COUNTRY WHICH FAILS TO PAY ADEQUATE COMPENSATION FOR NATIONALIZED US INTEREST, VAN LOO SUGGESTED WE MAKE POINT OF BRINGING THIS FACT (WHICH HE HAD TEMPORARILY LOST SIGHT OF) TO ATTENTION TO GIRM. (AMERICAN-OWNED INTERNATIONAL MINERALS AND CHEMICAL CORPORATION (IMCC) HAS CONFIDENTIAL

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3 PERCENT INTEREST IN MIFERMA). WE INTEND TO DO THIS QUIETLY ON APPROPRIATE OCCASION. WE BELIEVE IT WOULD ALSO BE USEFUL IF DEPARTMENT WXS TO REITERATE USG POSITION ON LINK BETWEEN AID AND ADEQUATE COMPENSATION TO MAURITANIAN AMBASSADOR IN WASHINGTON, INCLUDING PERHAPS PROVIDING HIM WITH COPIES OF RELEVANT LEGISLATION. AT SAME TIME, WE DO NOT WISH TO GET TOO FAR IN FRONT ON THIS ISSUE. FOR TIME BEING, MIFERMA, INCLUDING IMCC REPRESENTATIVE, DOES NOT WANT USG TO PUSH ISSUE TOO HARD. MOREOVER, OTHER GOVERNMENTS, WHOSE NATIONALS HAVE FAR GREATER INTEREST IN MIFERMA THAN DO US NATIONALS, ARE CONTINUING TO PLAY LOW KEY ROLE.

10. COMMENT: DPM IS WALKING TIGHT ROPE IN ITS EFFORTS TO RESOLVE COMPENSATION QUESTION. MORE RESPONSIBLE ELEMENTS OF GOVERNMENT WISH TO PRESERVE GOOD REPUTATION WITH WEST AND INTERNATIONAL FINANCIAL INSTITUTIONS. CERTAIN YOUNGER AND MORE ACTIVIST ELEMENTS ARE MORE CONCERNED WITH PRESERVING THIRD WORLD IMAGE AND REPUTATION. P3*5-LEANING INDIVIDUALS BOTH IN AND OUT OF GOVERNMENT. THERE ARE THOSE WHO ARE SAYING WHOLE MATTER OF NATIONALIZATION IS PHONY IF GENEROUS COMPENSATION IS PAID. WE ALSO NOTE WITH INTEREST THAT REP OF BRITISH STEEL CORP. HAS BEEN PUSHED FORWARD AS SPOKESMAN FOR MIFERMA GROUP. WE UNDERSTAND THIS WAS DONE IN EFFORT TO KEEP FRENCH, WHO BEAR BURDEN OF COLONIALIST BACKGROUND IN MAURITANIA, BEHIND THE SCENES. AS BRITISH ARE VIEWED MORE NEUTRALLY BY GYRM, THIS APPEARS TO BE SHREWD TACTIC. GIVEN FACT THAT MIFERMA NATIONALIZATION IS BECOMING HOT BEHIND-THE-SCENES DOMESTIC POLITICAL ISSUE, WE DO NOT BELIEVE FINAL DECISION, PARTICULARLY IF IT PROVIDES FOR ADEQUATE COMPENSATION, WILL BE FORTHCOMING UNTIL AFTER JULY PARTY CONFERENCE. HANDYSIDE

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: COMPENSATION, NATIONALIZATION, NEGOTIATIONS, MINING INDUSTRY
Control Number: n/a
Copy: SINGLE
Draft Date: 17 APR 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: buchandr
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975NOUAKC00730
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D750134-1065
From: NOUAKCHOTT
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750442/aaaabmtc.tel
Line Count: 298
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION AF
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 6
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 75 NOUAKCHOTT A-65, 75 DATED 12-2-74
Review Action: RELEASED, APPROVED
Review Authority: buchandr
Review Comment: n/a
Review Content Flags:
Review Date: 20 MAY 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <20 MAY 2003 by BoyleJA>; APPROVED <01 OCT 2003 by buchandr>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: MIFERMA NEGOTIATIONS UNDERWAY
TAGS: EFIN, EINV, EMIN, MR, MIFERMA
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006